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SUBJECT: WILL ROGUN EVER GET BUILT? TAJIKISTAN AND RUSAL ENGAGE IN  
WAR OF WORDS

REF: DUSHANBE 326

CLASSIFIED BY: Tom Hushek, Charge d'Affaires, U.S. Embassy,  
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REASON: 1.4 (b), (d)

11. (C) SUMMARY: Is RusAl on the verge of abandoning Rogun, or merely posturing to hasten its acquisition of Tajik state-owned aluminum smelter TadAZ? In the past week, Tajik and regional news agencies have published several articles on Rogun and other Russian-Tajik investments, questioning the partnership and trading accusations from both sides. Privately, ministers and others close to President Rahmonov have hinted about Tajik displeasure with RusAl and its slow start at the Rogun construction site, with some suggesting Tajikistan will need to look elsewhere for partners. Avesta news agency published a blistering interview in which RusAl's Dushanbe representative accused Tajik authorities of muddying the waters with the World Bank, purposefully misinterpreting the words of President Putin, and begging for financial assistance from the Russian Government, even though "the times of the State Planning Committee of the USSR ended long ago." Fighting words, indeed. The Tajiks pushed Rogun negotiations to the Intergovernmental Commission on Russian-Tajik Cooperation, scheduled for September, as Rogun becomes an important part of the bilateral relationship. END SUMMARY.

ROGUN

12. (U) At the heart of the growing controversy lies Rogun power station, a 3600 MW hydropower project on the Vakhsh River. Started in the 1980s, the government abandoned the project when the Soviet Union collapsed, having already invested over \$800

million in construction of several tunnels and support facilities. Tajikistan estimates another \$2.2 billion is needed to complete the project. If finished, Rogun could produce 13.1 billion kW/hour of electricity, almost doubling Tajikistan's current 17.1 kW/h billion per year.

13. (U) The Russian aluminum giant RusAl wants to develop Rogun as a power source for aluminum production in Tajikistan. TadAZ, the Tajik state-owned smelter, consumes an annual 6.7 billion kW/h, 40% of Tajikistan's total electricity production. During Russian President Putin's October 2004 visit to Dushanbe, part of the economic package included RusAl building a second aluminum smelter in Tajikistan, in exchange for RusAl's getting controlling interest in Rogun.

14. (C) Uzbekistan has been particularly opposed to the Rogun project, on the grounds that the reservoir will impede water supplies necessary for irrigating Uzbekistan's cotton fields. Tajikistan consistently claims the Rogun dam will better regulate water to Uzbekistan and Turkmenistan, improve regional irrigation and even help solve the problems of the Aral Sea. In the last six months, RusAl head Oleg Deripaska is rumored to be spending time in Tashkent, trying to woo the Uzbek leadership into supporting the project.

IRRESPONSIBLE BUREAUCRATS!

15. (U) "Tajik bureaucrats, (I cannot say all of them), hand out irresponsible interviews during the negotiation process." In an August 1 interview with Avesta news agency, Konstantine Zagrebleniy, head of RusAl's Dushanbe office, accused the Tajik government of bureaucratic delays, of misquoting Putin, and predetermining the dimensions and scale of the project before the feasibility study is finished. In an attempt to clarify

DUSHANBE 00001545 002 OF 003

RusAl's position and defend it against Tajik officials' insinuations that RusAl had delayed construction, Zagrebleniy suggested that Tajik authorities were to blame for the delays, and laid down the challenge that Rogun could not be built without RusAl.

WHY ALL THE FUSS?

16. (C) RusAl and the Tajik government have yet to finalize an agreement on the structure, financing and ownership of the project. Several outstanding issues remain:

-- Ownership: RusAl and Tajikistan have not yet finalized the terms of the partnership. Tajik authorities claim they have already put at least \$800 million into the project, and want 50 percent ownership of a joint venture. RusAl may try to low-ball the value of existing structures as a way to minimize Tajik shares in Rogun. A Dushanbe World Bank analyst suggested RusAl valued the existing infrastructure at only \$100 million. Zagrebleniy told Avesta, "While the Tajik side says they already have a project~ we consider that there is practically no project. Half the documentation is simply missing and it does not exist physically."

-- The feasibility study: Rogun commissioned the German firm Lahmeyer to conduct the technical survey of the project and revise Soviet-era plans, including the type and size of the dam. Although Lahmeyer will not complete its study until later in August, Tajik officials, including the Energy Minister Yerov and Presidential Center for Strategic Research Director Suhrob Sharipov, have told PolOff that "Lahmeyer will conclude whatever RusAl wants, since RusAl is paying the bill." Fearful that the Lahmeyer study will disadvantage Tajikistan, the Tajik authorities have insisted that the World Bank play the role of independent arbiter.

-- The dam: Perhaps the biggest sticking point in the project is the dam's dimensions. The original Soviet plans call for a 330-meter rock and earth dam, which would be the world's tallest, while RusAl has proposed a shorter 285-meter cement

dam. The Tajiks point to the 30-year old rock and earth dam at Nurek, noting how well it has held up despite hundreds of small earthquakes, and complain that a cement dam will be too expensive to build and maintain. If the construction price rises significantly, their stake in the project will be smaller. A smaller dam will also provide less power output.

-- Financing: Although RusAl's leadership claims Rogun cannot be built without them, the \$2.2 billion investment is too big for RusAl alone. The international financial institutions' current interest in Tajik hydropower is based on production of electricity for export, while RusAl has clearly stated it intends to use Rogun's output for domestic aluminum production. Deputy Foreign Minister Yatimov told PolOff August 1 he thought the Russian government would step in and help finance the project, as it had promised to do for the Sangtuda-I hydropower station, a 670 MW project being built by Russia state utility RAO UES. However, Zagrebleniy stated that the Tajiks cannot expect additional financing from the Russian Federation's Stabilization fund. "The times of Gosplan, the USSR State Planning Committee, are long past," he was quoted. "President Putin's words on state participation should not be interpreted as a promise to finance the project from the Russian budget." (NOTE: RAO UES is now looking for additional funding for Sangtuda-I, despite the pledge from the Russian Federation. END NOTE.)

SO WILL IT BE BUILT?

DUSHANBE 00001545 003 OF 003

17. (C) Tajik officials have quietly suggested other investors would be welcome in Rogun. Yerov told PolOff July 16 that Rogun should be built by the "international consortium" of donors, investors and private companies formed in Dushanbe in January -- not by RusAl alone. (NOTE: RusAl was one of the signatories to the Consortium Agreement, as were AES, RAO UES, the governments of Tajikistan and Afghanistan, as well as the World Bank, Asian Development Bank and the European Bank for Reconstruction and Development. END NOTE.) Sharipov suggested to PolOff July 28 that although RusAl already invested in some infrastructure improvements to the site, investments from China, Pakistan and Kazakhstan could force Russia out of the project. Without such pressure, Russia and RusAl might drag out the negotiations, causing "delay after delay." "Russia should have a post-imperial responsibility to Tajikistan," he opined. Sharipov, Yerov and his First Deputy Pulat Mukhiddinov have all individually predicted that RusAl will use the Lahmeyer study as an excuse to pull out of Rogun, citing the costs as too high to make aluminum profitably.

18. (C) COMMENT: Regardless of the outcome of the Lahmeyer study, building Rogun will cost at least \$2 billion. Without guaranteed cost recovery from exports, it is doubtful an international financial institution will want to make that large an investment, particularly with a partner so closely tied to the Kremlin like RusAl. RusAl wants Rogun for aluminum production, not electricity exports, and without a second smelter or full control of TadAZ, it may not need or want Rogun at all.

19. (C) COMMENT CON'T: Our best guess: Unless high voltage transmission lines can reliably export Tajik electricity to Pakistan or Kazakhstan, Rogun will be too big a gamble for any single investor, and with RusAl in the driver's seat, too complicated for a consortium. END COMMENT.

HUSHEK